

# **\$1,000 Minimum Benefit: Retired 20 Years with 25 Years of Service**

## **Background**

The minimum benefit amount for PERS 1 and TRS 1 members was established in 1995 at \$24.22 times a member's service credit years. The minimum benefit amount increases each year by the annual increase amount: at least three percent plus any gain-sharing distributions. Currently, the minimum benefit is \$31.76; a member with 25 years of service would receive a monthly benefit, prior to reductions for payment options or withdrawals, of \$794.

As of the most recent valuation, there were 636 PERS 1 members and 652 TRS 1 retirees who had served at least 25 years, had been retired 20 years, and their benefit was less than \$1,000 per month.

## **Committee Activity**

### **Presentation:**

December 16, 2003 - Full Committee Meeting

### **Proposal Approved:**

December 16, 2003 - Full Committee Meeting

## **Recommendation to Legislature**

Establish a minimum benefit, prior to reductions for payment options or withdrawals, of \$1,000 per month for retirees with at least 25 years of service and who have been retired at least 20 years.

## **Staff Contact**

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# Select Committee on Pension Policy

## **\$1,000 Minimum Benefit: Retired 20 Years with 25 Years of Service**

*(December 10, 2003)*

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<b>Issue</b>	Establish a minimum retirement benefit of \$1,000 per month for PERS 1 and TRS 1 members with at least 25 years of service and who've been retired at least 20 years.
<b>Staff</b>	Robert Wm. Baker (360) 586-9237
<b>Members Impacted</b>	As of the most recent valuation there were 54,006 PERS 1 retirees and 33,148 TRS 1 retirees. Of these, 636 PERS 1 members and 652 TRS 1 retirees had served at least 25 years, had been retired 20 years, and received a benefit of less than \$1,000 per month. Before optional payment reductions, these retirees had an average benefit of \$870. Their average age was 84 in PERS and 89 in TRS.
<b>Current Situation</b>	PERS 1 and TRS 1 retirees are eligible to receive the Uniform COLA at age 66 after at least one year of retirement. They are also eligible for the current minimum benefit of \$31.76 per month times their years of service (a member with 25 years of service would be eligible for \$794 per month.) Both the Uniform increase amount and the minimum benefit amount increase by at least 3% per year, and by gain-sharing distributions when available.
<b>History</b>	The Uniform COLA for PERS 1 and TRS 1 retirees was instituted in 1995.

The minimum benefit for PERS 1 and TRS 1 retirees was instituted in 1995.

Numerous bills have been introduced to address PERS 1 and TRS 1 COLAs, examples of which include HB 1197 and SB 5097 introduced in the 2003 session. This legislation would have allowed PERS 1 and TRS 1 retirees, who have been retired at least one year, to receive the Uniform COLA on July 1<sup>st</sup> of the calendar year in which they turn age 66. Neither bill received a hearing.

Other legislation has attempted to increase PERS 1 and TRS 1 COLAs through the gain-sharing chapter such as SB 5516 and HB 1426 which were introduced in the 2003 session. This legislation would have increased the frequency of gain-sharing distributions and distributed the odd-year amounts based on a formula where 1 point would be awarded for each year of service and 2 points for each year of retirement. Neither bill received a hearing.

### **Policy Analysis**

The plan 2/3s include COLA provisions that, after one year of retirement, increase a retiree's benefit by a maximum of 3% based on the Seattle CPI-W. The Uniform COLA amount, available to PERS 1 and TRS 1 retirees who have been retired at least one year and are age 66, is a fixed dollar amount multiplied by the retiree's years of service, not a percentage increase in the retiree's benefit; as a result, it is of greater value to low-benefit retirees, and of lesser value to high-benefit retirees.

PERS 1 and TRS 1 members retired for extended periods have the greatest diminishment in the purchasing power of their benefit. Based on changes in the CPI-W for Seattle, it is estimated that the benefit of an average PERS 1 member loses 10 percent of its purchasing power after 5 years of retirement and 20 percent after 10 years.

PERS 1 and TRS 1 members may retire at age 60 with 5 years of service, at age 55 with 25 years of service, or at any age with 30 years of service.

PERS, SERS, and TRS members may receive an unreduced retirement at age 65 with 5 years of service (in the plan 3, it is 10 years of service and attainment of age 65.) At age 55, after 30 years of service, a member may receive a benefit reduced 3% per year from age 65. At age 55, after 20 years of service, a member may receive an actuarially reduced retirement benefit.

### **Estimated Fiscal Impact**

As this would be a nonautomatic benefit adjustment, RCW 41.45.070(5) requires that it be funded on a pay-as-you-go basis. The cost to increase these retirees' unreduced benefit to \$1,000 per month was estimated to June 30, 2010 because by July 1, 2010 the Minimum Benefit Amount will be at least \$41.07 which would result in an allowance of \$1,027 for a member with 25 years of service.

	<b>TRS</b>	<b>PERS</b>	<b>Total</b>
<b>2004-2005</b>	\$448,937	\$509,524	\$958,461
<b>2005-2007</b>	\$464,204	\$564,715	\$1,028,919
<b>Through June 30, 2010*</b>	\$1,091,698	\$1,341,034	\$2,432,732

*\*Cost estimated through June 30, 2010 because the minimum benefit will be \$41.07 on July 1, 2010 resulting in a \$1,027 allowance for a member with 25 years of service.*

Because of the lag between the valuation data (September 2002) and the date of possible first adjustment (July 1, 2004), the number of retirees eligible for this minimum would decline to 457 TRS 1 members and 486 PERS 1 members.

### **Administrative Impact (DRS)**

Input requested.

### **Executive Committee Recommendation**

Forward the issue to the Full Committee for their consideration.

**Bill Draft**

See attachment.

**Fiscal Note (Draft)**

See attachment.

# FISCAL NOTE – DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/10/03	Z-0935.2/04

## SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System Plan 1 and Teachers' Retirement System Plan 1 by establishing a \$1,000 per month minimum benefit, before optional payment reductions, for those members with at least 25 years of service and who have been retired at least 20 years.

Effective Date: July 1, 2004

## CURRENT SITUATION:

PERS 1 and TRS 1 retirees are eligible to receive the Uniform COLA at age 66 after at least one year of retirement. They are also eligible for the Minimum Benefit which is currently \$31.76 per month times a member's years of service – a member with 25 years of service would be eligible for \$794 per month. Both the Uniform increase amount and the Minimum Benefit amount increase by at least 3% per year, and by gain-sharing distributions when available.

## MEMBERS IMPACTED:

As of the most recent valuation there were 54,006 PERS 1 retirees and 33,148 TRS 1 retirees. Of these, 636 PERS retirees and 652 TRS retirees had served at least 25 years, had been retired 20 years, and their benefit was less than \$1,000 per month. Before optional payment reductions, these retirees had an average benefit of \$870. Their average age was 84 in PERS and 89 in TRS. Additional members will be eligible in the future. The current Minimum Benefit of \$31.76 per month per years of service, however, will eventually increase to more than \$1,000 for all members with at least 25 years of service, before optional payment reductions, and at that time there will be no additional payments because of this bill.

## FISCAL IMPACT:

### Description:

As this would be a non-automatic post retirement benefit adjustment, RCW 41.45.070(5) requires that it be funded on a pay-as-you-go basis. The cost to increase these retiree's unreduced benefit to \$1,000 per month was estimated to June 30, 2010 because by July 1, 2010 the Minimum Benefit Amount will be at least \$41.07 which would result in an unreduced allowance of \$1,027 for a member with 25 years of service.

## Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
<b>Actuarial Present Value of Projected Benefits</b>				
(The Value of the Total Commitment to all Current Members)	PERS 1	\$12,532	\$1.0	\$12,533
	TRS 1	\$10,209	\$0.8	\$10,210
<b>Unfunded Actuarial Accrued Liability</b>				
(The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	\$1,393	\$1.0	\$1,394
	TRS 1	586	\$0.8	587
<b>Unfunded Liability (PBO)</b>				
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS	\$925	\$1.0	\$926
	TRS	\$236	\$0.8	\$237

## Increase in Contribution Rates:

### 2004-2005

Employee	PERS	0.00%
	TRS	0.00%
Employer State	PERS	0.01%
	TRS	0.01%

### 2005-2007

Employee	PERS	0.00%
	TRS	0.00%
Employer State	PERS	0.00%
	TRS	0.01%

## Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

<b>Costs (in Millions):</b>	<b>PERS</b>	<b>TRS</b>	<b>Total</b>
<b>2004-2005</b>			
<b>State:</b>			
General Fund	\$ 0.1	\$ 0.4	\$ 0.5
Non-General Fund	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>
<b>Total State</b>	<b>\$0.3</b>	<b>\$0.4</b>	<b>\$0.7</b>
Local Government	\$0.2	\$0.1	\$0.3
Total Employer	\$0.5	\$0.5	\$1.0
 Total Employee	 \$0.0	 \$0.0	 \$0.0
<b>2005-2007</b>			
<b>State:</b>			
General Fund	\$ 0.1	\$ 0.4	\$ 0.5
Non-General Fund	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>
<b>Total State</b>	<b>\$0.3</b>	<b>\$0.4</b>	<b>\$0.7</b>
Local Government	\$0.3	\$0.1	\$0.4
Total Employer	\$0.6	\$0.5	\$1.1
 Total Employee	 \$0.0	 \$0.0	 \$0.0
<b>2004-2029</b>			
<b>State:</b>			
General Fund	\$ 0.3	\$ 0.9	\$ 1.2
Non-General Fund	<u>0.4</u>	<u>0.0</u>	<u>0.4</u>
<b>Total State</b>	<b>\$0.7</b>	<b>\$0.9</b>	<b>\$1.6</b>
Local Government	\$0.6	\$0.2	\$0.8
Total Employer	\$1.3	\$1.1	\$2.4
 Total Employee	 \$0.0	 \$0.0	 \$0.0



## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Teachers' Retirement System and the Public Employees' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Unfunded Actuarial Accrued Liability (UAAL):** The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

1       AN ACT Relating to establishing a one thousand dollar minimum  
2 monthly benefit for public employees' retirement system plan 1 members  
3 and teachers' retirement system plan 1 members who have at least  
4 twenty-five years of service and who have been retired at least twenty  
5 years; and amending RCW 41.32.4851 and 41.40.1984.

6       BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7       **Sec. 1.** RCW 41.32.4851 and 1995 c 345 s 3 are each amended to read  
8 as follows:

9       (1) No one who becomes a beneficiary after June 30, 1995, shall  
10 receive a monthly retirement allowance of less than twenty-four dollars  
11 and twenty-two cents times the number of years of service creditable to  
12 the person whose service is the basis of such retirement allowance.

13       (2) If the retirement allowance payable was adjusted at the time  
14 benefit payments to the beneficiary commenced, the minimum allowance  
15 provided in this section shall be adjusted in a manner consistent with  
16 that adjustment.

17       (3) Beginning July 1, 1996, the minimum benefit set forth in  
18 subsection (1) of this section shall be adjusted annually by the annual  
19 increase.

1 (4) Those receiving a temporary disability benefit under RCW  
2 41.32.540 shall not be eligible for the benefit provided by this  
3 section.

4 (5) Beginning July 1, 2004, the minimum benefit set forth in  
5 subsection (1) of this section, prior to adjustments set forth in  
6 subsection (2) of this section, for a beneficiary with at least twenty-  
7 five years of service and who has been retired at least twenty years  
8 shall be one thousand dollars per month.

9 **Sec. 2.** RCW 41.40.1984 and 1995 c 345 s 7 are each amended to read  
10 as follows:

11 (1) Except as provided in subsections (4) and (5) of this section,  
12 no one who becomes a beneficiary after June 30, 1995, shall receive a  
13 monthly retirement allowance of less than twenty-four dollars and  
14 twenty-two cents times the number of years of service creditable to the  
15 person whose service is the basis of such retirement allowance.

16 (2) Where the retirement allowance payable was adjusted at the time  
17 benefit payments to the beneficiary commenced, the minimum allowance  
18 provided in this section shall be adjusted in a manner consistent with  
19 that adjustment.

20 (3) Beginning July 1, 1996, the minimum benefit set forth in  
21 subsection (1) of this section shall be adjusted annually by the annual  
22 increase.

23 (4) Those receiving a benefit under RCW 41.40.220(1) or under RCW  
24 41.44.170 (3) and (5) shall not be eligible for the benefit provided by  
25 this section.

26 (5) For persons who served as elected officials and whose  
27 accumulated employee contributions and credited interest was less than  
28 seven hundred fifty dollars at the time of retirement, the minimum  
29 benefit under subsection (1) of this section shall be ten dollars per  
30 month per each year of creditable service.

31 (6) Beginning July 1, 2004, the minimum benefit set forth in  
32 subsection (1) of this section, prior to adjustments set forth in  
33 subsection (2) of this section, for a beneficiary with at least twenty-  
34 five years of service and who has been retired at least twenty years  
35 shall be one thousand dollars per month.

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